Office of Governmental Affairs
P.O. Box 942720
Sacramento, CA 94229-2720
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-3689, FAX (916) 795-3270

April 18, 2006

AGENDA ITEM 7-A

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Assembly Bill 2132 (Levine) – As Introduced

Health Benefits after Reinstatement from Retirement

Sponsor: California Professional Firefighters

II. PROGRAM: Legislation

III. RECOMMENDATION: Support

This bill guarantees that a retiree will not receive a reduction in benefits after retirement due to a period of reinstatement to active duty.

IV. ANALYSIS:

This bill would allow an annuitant who, after reinstatement to active employment, subsequently retires to enroll as an annuitant of the employer from which he or she first retired, unless the annuitant is entitled to a higher contribution from the employer from which he or she subsequently retires. To be eligible, the annuitant must have at least five years of service with the employer from which he or she first retired. In addition, retirement must occur within 120 days after separation from employment from the most recent employer.

Background

Currently under PEMHCA, the last employer of record before retirement is the employer responsible for paying the employer contribution for the annuitant's health coverage. The state, and some contracting agency employers, use a vesting schedule for retiree health coverage eligibility. PEMHCA employer vesting schedules require a minimum number of years of service prior to obtaining eligibility for annuitant health coverage. The amount of the employer contribution for annuitants varies widely among employers. Under the equal contribution method, the minimum employer contribution for contracting agencies is $64.60, which will increase over the next two years to reach $97 for the 2008-benefit year. If, however, a contracting agency participates in the unequal contribution provision pursuant to section 22892(c), the minimum employer contribution is $64.60 for active employees with retirees able to receive a lesser employer contribution.

A PEMHCA member may retire from civil service and, if eligible, receive retiree health coverage. The retiree may return to employment as a retired annuitant with a CalPERS employer following retirement, but the employment time may not exceed 960 hours per year. If the retiree exceeds 960 hours per year, the law requires that the retirement allowance and benefits cease, and the member be reinstated from retirement as an active employee and member of the system.

If the retiree reinstates from retirement as an active employee for a CalPERS-covered employer, under PEMHCA the new employer is considered the last employer of record for purposes of determining health coverage eligibility when that individual retires for the second time. For example, if a state annuitant receives the full employer contribution for health coverage under the 100/90 formula after 20 years of service with the state and later decides to reinstate with a PEMHCA contracting agency, when the employee subsequently retires from that agency he or she would only be eligible to receive the employer contribution from the contracting agency. This would result in a substantial increase in annuitant out-of-pocket costs for health care in retirement.

Proposed Changes

This bill would allow an annuitant who, after reinstatement to active employment, subsequently retires to enroll as an annuitant of the employer from which he or she first retired, unless the annuitant is entitled to a higher contribution from the employer from which he or she subsequently retires. To be eligible, the annuitant must have at least five years of service with the employer from which he or she first retired. In addition, retirement must occur within 120 days after separation from employment from the most recent employer.

Because the state and some contracting agencies use various vesting schedules, an annuitant must continue to meet the vesting requirements of the employer to be eligible to receive postretirement health benefits.

This shall apply to an annuitant who, after reinstatement, subsequently retires on or after January 1, 2007.

Issues

1. Arguments of Those in Support

   The sponsor argues that once an individual is vested or is otherwise eligible for an employer contribution for retiree health coverage, the retiree should not lose entitlement to that contribution. If a CalPERS member works in the private sector after retirement, he or she would not lose health coverage eligibility. Therefore, retirees that return to work for a CalPERS-covered employer should not risk losing retiree health coverage either.

Organizations in support: California Professional Firefighters (sponsor)

2. Arguments of Those in Opposition

   There is no known opposition at this time.

3. This bill will not create an incentive for a retiree to "shop" among employers for the highest retiree health contribution.

   The bill states that the retiree will receive the higher of the two employer contributions – either the employer from which he or she first retired or the subsequent employer. CalPERS currently requires the last employer to pay the employer contribution for an eligible annuitant, so any incentive for a retiree to return to work to receive a higher employer contribution for health benefits already exists. Allowing the annuitant to receive the higher of the two contribution amounts ensures that there will not be a benefit reduction from what is currently available.

4. This bill eliminates disincentives for retirees to return to work.

   The primary purpose of this bill is to eliminate the reduction of retiree health coverage after reinstatement. As such, this bill allows retirees various options without fear of reducing or losing their employer contributions toward retiree health benefits. With the expected demographic shift in the workforce it is important to address this disincentive.

5. Legislative Policy Standards

   The Board's Legislative Policy Standards do not address the issue in this bill. However, staff recommends a support position since this bill guarantees that a retiree will not receive a reduction in benefits after retirement due to a period of reinstatement. Some retirees may currently reinstate from retirement to active employment without fully understanding the ramification of that decision on their health benefit eligibility and contribution. AB 2132 will also provide greater flexibility for all PEMHCA employers in recruiting experienced, retired individuals as new employees by removing a disincentive that restricts some retirees from returning to work.

V. STRATEGIC PLAN:

This item is not a specific product of the Annual or Strategic Plans, but is part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. RESULTS/COSTS:

The effects of this bill are unclear. A greater number of individuals may reinstate from retirement to employment if their employer contribution for retiree health coverage is not in jeopardy.

Program Costs

AB 2132 will not impact the cost of health benefits, but it does impact employer contributions for retiree health coverage. While staff does not have enough information to determine the actual cost, following is an explanation of how AB 2132 is likely to impact employer contributions.

State Costs

AB 2132 may increase state costs, but it is also likely to generate savings.

Savings: Because this bill eliminates one of a retiree's major disincentives to returning to work, more state retirees may return to active employment. During the time period when a state retiree is working for an employer participating in PEMHCA, the state will save the annuitant premium contribution amount that otherwise would be paid.

Costs: The state currently saves money when annuitants lose their eligibility for the state's annuitant contribution after they reinstate with a contracting agency. Thus, this bill will increase costs with respect to those individuals, since AB 2132 makes them eligible to resume the state's annuitant contribution after the subsequent retirement.

Contracting Agencies

The cost impact for contracting agencies would be similar to that of the state. This bill requires the PEMHCA employer with the most generous health contribution to pay after the retiree's final retirement. This may cause PEMHCA contracting agencies to provide the minimal annuitant health contribution or to alter its vesting schedule, if possible.

Administrative Costs

This bill will create some additional, on-going administrative costs. It will require the addition of another manual process outside of the automated enrollment system, because this system cannot accommodate the employer contribution comparison required by this bill.

Lisa Marie Hammond, Chief
Office of Governmental Affairs

Jarvio Grevious
Deputy Executive Officer
Benefits Administration

Terri Westbrook
Assistant Executive Officer
Health Benefits